

# The Bare Minimum:

A Shift Leader's Perspective on Minimum Wage in the Fast-Food Industry

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ENG 108

18 November 2013

### **Abstract**

Despite growing evidence that the recession has ended and the economic recovery has started, over 50 percent of fast-food workers have to rely on government assistance in order to survive. This is influenced by several factors: a stagnant minimum wage, a workforce that is both older and more skilled than before, and the low-wage employers' reliance on a flawed system in order to bring more profit. Reviewing research both before (1970 to 2007) and after (2009 to October 2013) the recession of 2008 has yielded two different views of the low-wage industries, and despite some obvious differences, both data sets agree that the minimum wage is not enough to support a family alone. I will be discussing several theories presented in my research on how to help the "working poor" attain a satisfying "living wage," including "indexing" the minimum wage, wage as a percentage of average wage, and the use of a program known as the Earned Income Tax Credit (EITC).

## **The Bare Minimum: A Shift Leader's Perspective on Minimum Wage in the Fast-Food Industry**

*Ding.* The headset beeps in Patty's ear and she instinctively presses the button. "Welcome to Hardee's, would you like to try—" she begins, but the customer yells over her. He orders quickly and loudly, and pulls to the window before she can tell him his total. *Ding.* He's waiting for his drink, but there's another car at the speaker. He honks his horn, glaring at her through the drive-thru window. She had been in the middle of changing the trash cans, and has to wash her hands before she can do anything else. *Ding.* With clean hands she cashes out his order and hands him his food. He's cursing at her, for some reason. *Ding.* "Have a nice day!" she wishes him, smiling, but he just hits the gas and peels out of the drive-thru lane. He's not the first grumpy customer she's had to deal with today, and he won't be the last. *Ding.* "Welcome to Hardee's..."

Fast-food employees like Patty work long hours for little pay, and at the end of the day have nothing to show for it. With the federal minimum wage at \$7.25 an hour, the average full-time (40 hours a week) minimum-wage worker can only make \$14,962 a year, according to economic analyst Shierholz (4). Another study places this total at a slightly more optimistic amount of \$15,080 per year, but that appears to be before taxes get taken out ("Fair Minimum Wage Act" 1). Both of these annual incomes are assuming that a worker like Patty does not miss a single day of work and that she does not get sent home early because of slow business—a common occurrence at a fast-food restaurant. The totals also do not account for holiday pay or vacation pay, two programs which Patty's employer takes part in. Patty's boyfriend also works a minimum-wage fast-food job, and together they can barely support their three kids. The two of them share a car, live in public housing, receive food stamps, and still regularly get their

electricity and water shut off. With two members of the household working full-time jobs, this should no longer be an issue. But it still is, thanks to out-of-date minimum wage laws. A fact sheet published by the National Employment Law Project asserts that, adjusted to today's cost of living, the minimum wage should be closer to \$10.55 an hour ("Fair Minimum Wage Act" 1). Although this "living wage" is difficult to define, measure, and monitor, it affects part-time workers, teenagers, and women the most (Abdulahad 3).

Despite a changing economy, the minimum wage has remained mostly the same for the last twenty years, reaching its peak value in 1968 (Schmitt 1). When taking into account even a fraction of the relative employee productivity, Schmitt argues that the minimum wage should be even higher (1) (See Table 1). This estimate is problematic because factors such as inflation cause the minimum wage to be worth relatively less and less each year. Beginning in 2007, federal legislation bumped the minimum wage for non-tipped workers up from \$5.15 an hour to \$7.25 an hour over a period of two years, though it still remains below what advocates think it should be today ("eLaws," "Indiana Minimum Wage Law"). The rising cost of living and "long-term erosion in the real value of the Federal minimum" (Osterman 120) has driven over half of fast-food workers to enroll in public assistance programs, simply to survive (Allegretto 1). These programs dole out nearly \$7 billion in aid to fast-food workers and their families every year, roughly half of that amount in the form of Medicaid and other insurance programs (Allegretto 1). Many families receiving this aid also use \$1.04 billion in food stamp assistance (Allegretto 1). "Supporters of the living wage argue that workers are entitled to earn wages that are sufficient to support their families and live in dignity" (Abdulahad 2).

Though it is generally believed that "flipping burgers" is a job held only by teenagers and dropouts, new evidence is revealing that low-wage jobs—especially in fast-food—are dominated

by adults. In 2011, over 60 percent of all low-wage workers fell into the 25-64 age group, compared to only 12 percent of workers aged 16-19 (See Table 2) (Schmitt and Jones 2). The average age of low-wage workers rose by 2.6 years between 1979 and 2011, increasing from 32.3 to 34.9 (Schmitt and Jones 1). This means that not only are fast-food workers staying with the job longer than they used to (fast-food jobs are generally considered to be only temporary), older, more qualified workers are being forced to work jobs they might not have considered in the past. “Most minimum wage workers are not teenagers,” economist Levin-Waldman says, “[they] are adults with economic responsibilities” (638).

Patty is a perfect example of the average fast-food worker: she’s 36 years old, unmarried, has three school-age children, works roughly 30 hours a week, and takes advantage of all the public assistance available to her. Though she and her boyfriend both work, many are not so lucky. Over 1.5 million of American low-wage workers with families provide the only income in the household (Levin-Waldman 638). As of 1980, 53 percent of male foodservice workers and 49 percent of females were below the age of 25, according to Emerson (101). Today, 68 percent of fast-food workers are adults (over 18) no longer in school who may or may not be married or have children (Allegretto 10). One critic elaborates that “part-time workers, teenagers, and minority groups experience the steepest decline in employment because of federal minimum wage” (Abdulahad 7).

The four most widely-used public assistance programs are the Federal Earned Income Tax Credit (EITC), Temporary Assistance for Needy Families (TANF), Medicaid and the Children’s Health Insurance Program (CHIP), and the Supplemental Nutrition Assistance Program (SNAP, or food stamps) (Allegretto 3). Of these, only TANF is limited to the absolute lowest-income families. EITC is designed to assist working families, which make up 73 percent

of public assistance enrollments (Allegretto 5). Table 3 details overall enrollment of these four programs from 2007 to 2011, while Table 4 limits the scope to only fast-food workers.

“I’m hungry; I haven’t eaten all day,” Travis, my cook for the evening tells me. It’s almost nine o’clock at night. “Hey, no problem,” I say to him, “I’ll go ring up your discount. Buy a burger or something. Those fries are still hot if you want some.” He shakes his head and digs a few coins out of his pocket. It’s all he has. Twenty-five years old and recently divorced, Travis pays child support to two different women for two children. Without a car or his license, he walks to work every day. A friend lets him stay on the couch. Working less than thirty hours a week, his two-pack-a-day habit easily eats up the rest of his funds. Earning such a low wage robs these workers of any “safety net” they could have established for themselves had they been able to put any money away. These “working poor” live from paycheck to paycheck and often have to do without important needs if any unexpected expenditures occur. I have known plenty of workers who can’t afford new work shoes (which are a special kind of non-slip shoe, and consistently cost more than \$40) and have been forced to repair them using glue, tape, and even staples. An ill-timed car repair can sometimes cause a fast-food employee to miss at least one, if not several days of work to get it fixed. A large majority of these employees have children as well, and often will have to call off work because they can’t find a babysitter who is willing to work long, odd hours for little pay.

While one of the biggest public assistance programs available provides health insurance to low-income adults and children, many fast-food workers simply do without health insurance. Hardee’s has a policy where if an employee is too sick to work, they must bring a doctor’s note when they return to work. Those who have insurance make a quick trip to the family doctor and pay just a small copay for the visit. Those without insurance, however (like both Patty and

Travis), must make a trip to the emergency room each time they are too sick to work. A basic cold lands them in the Emergency Room just because they can't afford access to a trusted family doctor or clinician. This predicament leads to the tendency for the fast-food employee to attend work up until the point where it is physically impossible to continue, and then weigh the monetary cost of going to the ER against potentially losing their job because of unexcused absences.

These low wages represent a fundamental misunderstanding of the system, possibly even a deliberate attempt to take advantage of those on the bottom rung of the economic ladder. A strong majority of low-wage workers (66 percent, particularly fast-food workers) are employed by large corporations rather than small businesses. Company size affects the percentage of low-wage workers employed; companies with fewer than 10 or more than 1000 workers have the highest percentages of low-wage workers (Osterman 117). The unnamed author of a NELP data brief observes that "Opponents of raising the minimum wage argue that an increase will slow down the post-recession recovery ... a substantial majority [of these corporations] have fully recovered from the recession and are in an even stronger position than before" ("Big Business" 3). Of the top low-wage employers, 92 percent profited last year, 78 percent have profited for the last three years, and 75 percent earn higher revenue now than before the recession ("Big Business" 3).

Evidence of this prosperity can be found by looking into the personal profits of both the corporate executives and the stock holders. In 2011, the average compensation of corporate executives in 50 of the top low-wage employers was \$9.4 million, and these same corporations have distributed \$174.8 billion to company stock holders in five years ("Big Business" 4). Comparatively, the biggest compensation of an executive was given to the head of Abercrombie

& Fitch Co.—\$48,069,473 (“Big Business” 6). Whether for good or bad, it appears that my employer, Hardee’s (CKE Restaurants, Inc.), is one of the few restaurants on this list not noted as “profitable” (“Big Business 6).

This widespread corporate prosperity raises some uncomfortable questions. How can some of the richest corporations in the United States afford to reward their CEOs so handsomely while paying their employees the bare minimum? Is it too much to ask for profits to trickle down to the bottom rung once and a while, in the form of raises or other benefits? This inability to share (whether deliberate or not) costs taxpayers literally billions each year. An estimated \$3.8 billion of taxpayer dollars goes toward paying for public assistance programs such as the aforementioned ETIC, SNAP, TANF, and Medicaid *every year*. “McDonald’s alone costs taxpayers an estimated \$1.2 billion each year” (“Super-Sizing Public Costs” 1) (See Table 5 for other corporations). Many of these taxpayer dollars could be put to better use if fast-food corporations such as McDonald’s would simply pay employees more than the bare minimum. That’s the company saying to the workers, “I would pay you less, if it were legal.”

In the question of whether an increased minimum wage would affect employment negatively, most advocates of the increase say that job loss would be minimal. Opponents of raising the minimum wage generally support the Earned Income Tax Credit to avoid the negative employment consequences. A 1992 study determined that the establishment of a minimum wage had “no associated decrease in teen employment” as was once feared. Another study found that a higher minimum wage can actually increase employment, reduce turnover, and attract higher-quality employees (Shierholz 5). On the other hand, an article published in 2007 (before the recession) asserts that a higher minimum wage “increase[s] the probability of poor families escaping poverty, but also increase[s] the likelihood of nonpoor families entering poverty due to

decreased employment and hours worked” (Burkhauser and Sabia 263). The two economists continue, saying that the most effective way to help the working poor is to focus on the EITC rather than increasing the minimum wage (Burkhauser and Sabia 277). The authors explain that the EITC bases the amount of funds a worker receives on her income, making it more reliable than simply increasing the minimum wage. This would not be an elegant solution, however, since the EITC is tax-funded; allowing workers to rely on it to supplement their already-low wages would just be treating a symptom of the poverty disease. “The EITC,” Osterman says, “permits firms to maintain low wages and sub-standard terms of employment” (120-121).

Opponents argue that raising the minimum wage has caused low-wage employers to cut back on employee hours and instead hire more part-time work. This claim remains a point of contention within the “economic justice issue” of establishing a living wage (Abdulahad 8). A book published in 1990 describes this phenomenon: “average hours per employee have declined, while the growth in number of employees has been faster than the real growth of restaurant sales” (99). Having more employees working fewer hours can cause turnover to skyrocket and employee productivity to crash. It is alleged that higher employee wages may increase labor cost and cause companies to reduce labor hours when it benefits them. Gissy, an economist, suggests the inclusion of “performance incentives” to keep employers from reducing hours unnecessarily (307). A more recent article (2009) found that “increasing the minimum wage can lead to increased employment through a number of channels, including cost savings from reducing job turnover, the attraction of higher-quality employees through higher wages, and increased productivity as a result of better worker morale” (Shierholz 5). These are but two proposed ideas for helping the working poor establish a higher standard of living. “It would be incorrect to

conclude that minimum wage legislation would never affect employment in the fast food industry ... it is not necessarily true that lower employment would result” (Gissy 307).

“Indexing” the minimum wage—adjusting it each year to account for inflation—would not necessarily increase its value. Indexing would cause the minimum wage to simply remain the same relative value through the years (Shierholz 8). The method used to determine the minimum wage needs to be more flexible, based on the fluctuating whims of the job market. An increase in the minimum wage to 50 percent of the average wage would directly assist low-wage workers who are over 20 years old (83.4 percent of all affected), namely those whose families rely on a fast-food income (Shierholz 9). That amount still might not be enough since “the living wage is on the average 60 percent higher than the minimum wage” (Abdulahad 4).

Much of the effectiveness of a minimum wage relies solely on regional location. The government may set the federal minimum wage, but individual states can always improve upon it. Indiana’s minimum wage is the same as the current federal amount, though Illinois next door has it set a dollar higher at \$8.25 an hour despite having a similar cost of living (“Indiana Minimum Wage Law”). The states can set minimum wage at any amount they want, though applying “a federal minimum wage in a low-wage region can effectively remove regional disparities by forcing up the bottom of the wage structure” (Levin-Waldman 636). This is often a necessity, as standards of living vary from region to region and require very different incomes to maintain “self-sufficiency, well-being, and quality of life” for all workers (Abdulahad 2). Whatever the route towards a higher minimum wage, Osterman provides ideas for “policy intervention” by the government or from within corporations themselves (119) (See Table 6).

Upton Sinclair’s *The Jungle* presents a time in American history before the establishment of the minimum wage. Jurgis, the protagonist of the novel, encounters the horrors of a practically

unregulated and unchecked industry where employees are paid mere cents for long hours of difficult and dangerous work. Employers are allowed to set their own wages, and if employees do not agree, they are simply replaced by other, possibly more desperate, workers. Desperation often set the wages as well. When a union organized a strike at the factory where Jurgis worked, the company simply brought in other workers who were willing to work for even less pay than before (Sinclair 290). This is not entirely the procedure for modern fast-food companies, though with turnover at nearly 200 percent a year for some restaurants and a constant stream of applications coming in, it bears a vague resemblance to Jurgis' losing situation in *The Jungle*.

Another major theme within *The Jungle* concerns the establishment of unions to protect workers' rights. At first Jurgis sees unions as an unnecessary drain on his funds, though he eventually warms up to them. In the end, he finds his calling in the Socialist cause. While unions do still exist today, there is still no union for fast-food workers. These employees are missing out on the opportunity to make changes within the industry in order to better themselves and their families.

In response to the outrage regarding issues I have outlined in this paper, and by a call to action from President Barack Obama himself, lawmakers are currently working on an Act to bring a higher minimum wage to fruition. The Fair Minimum Wage Act of 2013 proposes to accomplish several things: increase the minimum wage to \$10.10 in a series of steps by 2015, use indexing to maintain the value of the minimum wage, and raise the wage for tipped workers to 70 percent of minimum wage (1). These changes would give a raise to 30 million workers in the United States and would directly benefit 17 million children (2).

I've always been told that you can tell much about a person by observing how they treat the people who serve them. If this really is the case, the fast-food corporations' harsh treatment

of low-wage employees reflects a disconnection within the workforce. By providing fast-food workers with a decent living wage, employers can not only help them establish comfortable lives, but they can free plenty of tax revenue that can be used elsewhere, like in education. A strong country is one with a strong middle class, and by reducing the number of people who earn poverty wages, we can eventually reduce poverty substantially. Whether now or in the near future, “upward pressure on wage rates in the fast-food industry is inevitable” (Emerson 102). As Schmitt observes in the title of his article, “The Minimum Wage is Too Damn Low.” And I’m sure Patty would concur.

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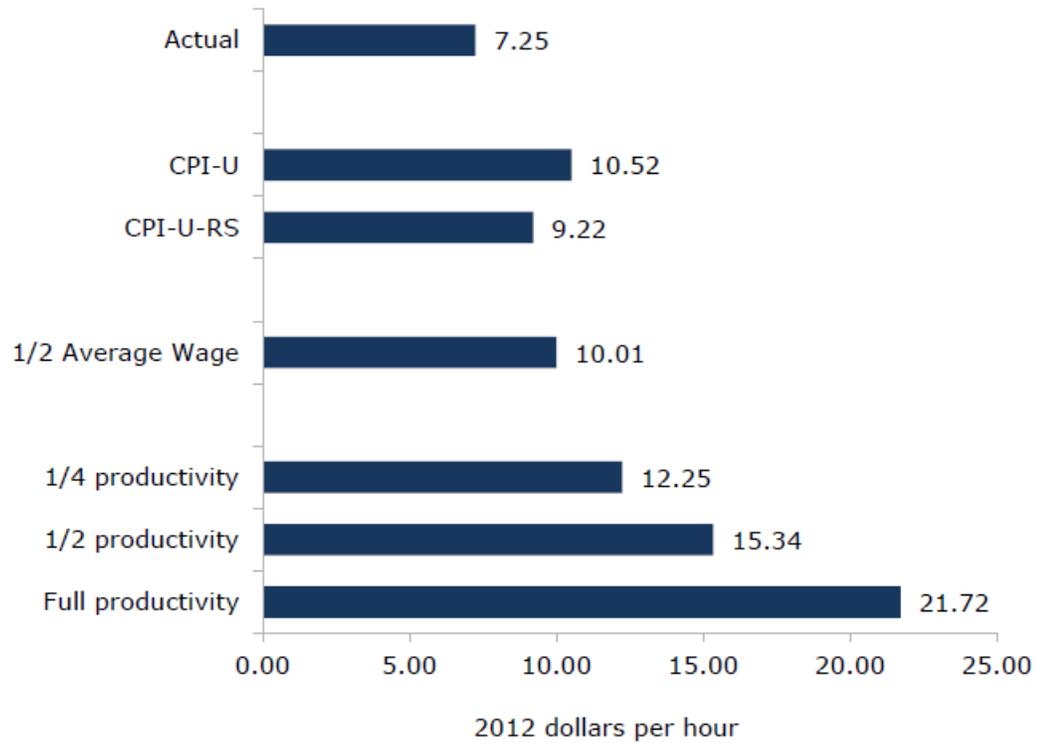
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Ever." Washington, DC: Center for Economic and Policy Research, 2012. Digital File.

**Appendix A: Associated Tables****Table 1:****Minimum-wage Benchmarks for 2012, relative to 1968 High-water Mark**

Source: "Minimum Wage is Too Damn Low" by John Schmitt, page 2. Author's analysis of BLS, CBO data.

|  | 1979 | 2011 |
|--|------|------|
| <i>(a) Age</i>   |      |      |
| 16-19  | 26.0 | 12.0 |
| 20-24  | 21.1 | 23.7 |
| 25-34  | 17.5 | 22.1 |
| 35-64  | 30.8 | 38.1 |
| 65   | 4.6  | 4.2  |
| Average Age (years)  | 32.3 | 34.9 |
| <i>(b) Education</i>   |      |      |
| Less Than High School  | 39.5 | 19.8 |
| High School  | 35.4 | 37.0 |
| Some college   | 19.5 | 33.3 |
| College+   | 5.7  | 9.9  |
| <i>(c) Gender</i>  |      |      |
| Female   | 64.8 | 55.0 |
| Male   | 35.2 | 45.0 |
| <i>(d) Race/Ethnicity</i>  |      |      |
| White  | 77.5 | 56.9 |
| Black  | 13.4 | 14.3 |
| Latino   | 6.7  | 23.2 |
| Other  | 2.4  | 5.6  |
| Asian  | n.a. | 4.5  |
| Source: "Low-wage Workers Are Older and Better Educated than Ever." Authors' analysis of CPS ORG. Low-wage workers defined as earning less than or equal to \$10.00 per hour in constant 2011 dollars, using CPI-R-US. |      |      |

| Program           | Total Families Enrolled | Total Program Cost (billions) | Cost Per Family |
|-------------------|-------------------------|-------------------------------|-----------------|
| Medicaid and CHIP | 23,419,000              | \$261.30                      | \$11,157        |
| EITC              | 26,383,000              | \$ 58.61                      | \$ 2,222        |
| Food Stamps SNAP  | 25,073,000              | \$ 55.93                      | \$ 2,231        |
| TANF              | 2,950,000               | \$ 9.88                       | \$ 3,348        |

Source: "Fast Food, Poverty Wages" page 5.

Note: All costs reported in 2011 dollars.

| Program                  | Program Enrollment |                    | Program Costs      |                  |
|--------------------------|--------------------|--------------------|--------------------|------------------|
|                          | Number             | Participation Rate | Average Per Family | Total (billions) |
| EITC                     | 820,000            | 45%                | \$2,380            | \$ 1.91          |
| Medicaid (adults)        | 340,000            | 19%                | \$7,620            | \$ 2.49          |
| Medicaid/CHIP (children) | 330,000            | 18%                | \$4,630            | \$ 1.49          |
| Food Stamps SNAP         | 432,000            | 24%                | \$2,450            | \$ 1.04          |
| TANF                     | 40,000             | 2%                 | \$2,330            | \$ 0.09          |
| All Programs             | 942,000            | 52%                | \$7,650            | \$ 6.99          |

Source: “Fast Food, Poverty Wages” page 7. Authors’ calculations from 2008–2012 March CPS, 2007–2011 ACS, 2011 OES, program administrative data.

Note: All costs reported in 2011 dollars.

**Table 5: Estimated Annual Cost of Public Assistance to Employees at 10 Largest Fast-Food Companies**

| Company  | Estimated Average Annual Cost of Public Assistance Provided to Employees <sup>5</sup> |
|--|---|
| McDonald’s                                     | \$1.2 billion   |
| Yum! Brands<br>(Pizza Hut, Taco Bell, and KFC) | \$648 million   |
| Subway   | \$436 million   |
| Burger King                                    | \$356 million   |
| Wendy’s  | \$278 million   |
| Dunkin’ Donuts                                 | \$274 million   |
| Dairy Queen                                    | \$228 million   |
| Little Caesars                                 | \$125 million   |
| Sonic  | \$164 million   |
| Domino’s                                       | \$126 million   |
| <b>TOTAL</b>                                   | <b>\$3.8 billion</b>  |

Source: See endnotes 4. Figures may not sum to total due to rounding.

Source: “Super-Sizing Public Costs: How Low Wages at Top Fast-Food Chains Leave Taxpayers Footing the Bill” published by NELP, page 2.

| <b>Table 6: Typology of Policy Interventions</b> |  |   |
|--|--|---|
|  | Standard-setting   | Programmatic  |
| Make bad jobs good                               | Minimum Wage<br>Living Wage<br>Unionization                | Career Ladders<br>Intermediaries<br>Sectoral Programmes   |
| Create more good jobs                            | Community Benefits<br>Agreements<br>Managed Tax Incentives | Extension Programmes<br>Sectoral Programmes<br>Consortia or partnerships under business or union auspices |

Source: *“Improving the Quality of Low-wage Work: The Current American experience”* by Paul Osterman, page

119.

## Appendix B: Selected Chronology of Wage and Labor Laws in the United States

- 1882** First Labor Day celebration
- 1906** Upton Sinclair's *The Jungle* published<sup>1</sup>
- 1908** Federal Employers Liability Act passed (railroad workers)
- 1916** Adamson Act passed
- 1935** National Labor Relations Act (Wagner Act) passed
- 1937** *West Coast Hotel Co. v. Parrish*
- 1938** Fair Labor Standards Act passed<sup>2</sup>
- 1941** Fair Employment Practices Commission established
- 1946** Employment Act passed
- 1947** Labor Management Relations Act passed
- 1959** Labor Management Reporting and Disclosure Act (Landrum-Griffin Act) passed
- 1963** Equal Pay Act passed<sup>3</sup>
- 1964** Civil Rights Act passed
- 1967** Age Discrimination in Employment Act passed<sup>4</sup>
- 1970** Occupational Safety and Health Act (OSHA) passed<sup>5</sup>
- 1978** Full Employment and Balanced Growth Act passed
- 1990** Americans with Disabilities Act passed
- 1993** Family and Medical Leave Act passed
- 2007** Fair Minimum Wage Act passed<sup>6</sup>

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<sup>1</sup> Publication led to the creation of laws governing food production and worker and union rights.

<sup>2</sup> Established minimum wage, the 44-hour workweek, time and a half for overtime work, stricter child labor rules.

<sup>3</sup> An act passed to stop gender discrimination in the workplace.

<sup>4</sup> Prevents employment discrimination based on age.

<sup>5</sup> Required employers to provide a "safe" workplace free from hazards.

<sup>6</sup> Gradually raised federal minimum wage from \$5.15 to \$7.25.

### **Importance of the Selected Chronology**

The history of employment in the United States is long and complex, so I chose to focus on several aspects in order to narrow it down. While I did include some entries regarding labor unions and their regulation, I mainly focused on the events which affected minimum wage, workplace safety, and discrimination in the workplace or by the employers. The main topic of the paper I will be writing is an argument for increasing the minimum wage to help the “working poor” escape poverty and maintain a higher standard of living. I will also be looking into the other aspects of working minimum wage jobs and living in poverty which keep fast food workers from escaping the never-ending cycle of poverty.